

PALISADE METROPOLITAN DISTRICT NO. 2

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021

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Independent Auditors' Report

Board of Directors
Palisade Metropolitan District No. 2
City and County of Broomfield Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Palisade Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Palisade Metropolitan District No. 2 as of December 31, 2021, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The individual fund budgetary schedules and property tax information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund budgetary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The budgetary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Simmons & Wheeler P.C.

Englewood, CO
September 19, 2022

BASIC FINANCIAL STATEMENTS

PALISADE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 477,121
Cash and Investments - Restricted	10,369,148
Due from Other Districts	2,162,662
Accounts Receivable	14,336
Accounts Receivable - County Treasurer	10,580
Property Taxes Receivable	7,323
Developer Advance Receivable	22,791
Prepaid Expenses	3,687
Capital Assets, Not Being Depreciated:	
Construction in Progress	12,519,709
Total Assets	<u>25,587,357</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Cost of Refunding	<u>549,764</u>
Total Deferred Outflows of Resources	549,764
LIABILITIES	
Accounts Payable	373,528
Retainage Payable	258,543
Accrued Interest Payable	46,025
Noncurrent Liabilities:	
Due Within One Year	600,000
Due in More Than One Year	<u>46,582,383</u>
Total Liabilities	47,860,479
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>7,323</u>
Total Deferred Inflows of Resources	<u>7,323</u>
NET POSITION	
Restricted For:	
Emergency Reserves	10,100
Debt Service	30,125
Capital Projects	1,803,545
Unrestricted	<u>(23,574,451)</u>
Total Net Position	<u><u>\$ (21,730,681)</u></u>

See accompanying Notes to Basic Financial Statements.

PALISADE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 260,007	\$ -	\$ 326,324	\$ -	\$ 66,317
Public Works	-	-	-	1,182,703	1,182,703
Interest and Related Costs on Long-Term Debt	3,468,503	-	1,515,417	-	(1,953,086)
Total Governmental Activities	\$ 3,728,510	\$ -	\$ 1,841,741	\$ 1,182,703	(704,066)
GENERAL REVENUES					
Property Taxes					7,101
Specific Ownership Taxes					31,907
Sales Taxes					60,235
Net Investment Income					6,021
Transfer from District No. 1					343,684
Total General Revenues					448,948
CHANGE IN NET POSITION					(255,118)
Net Position - Beginning of Year					(21,475,563)
NET POSITION - END OF YEAR					\$ (21,730,681)

See accompanying Notes to Basic Financial Statements.

**PALISADE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021**

ASSETS	General	Debt Service	Capital Projects	Total Governmental Funds
Cash and Investments	\$ 477,121	\$ -	\$ -	\$ 477,121
Cash and Investments - Restricted	10,100	7,867	10,351,181	10,369,148
Due from Other Districts - Palisade Park North MD No. 1	-	-	127,676	127,676
Due from Other Districts - Palisade Park North MD No. 2	-	-	23,735	23,735
Due from Other Districts - Palisade Park North MD No. 3	-	-	1,370,858	1,370,858
Due from Other Districts - Palisade Park West MD	-	-	640,393	640,393
Property Tax Receivable	1,806	5,517	-	7,323
Receivable from BURA TIF	2,068	6,317	-	8,385
Receivable from County Treasurer	541	1,654	-	2,195
Accounts Receivable	-	14,336	-	14,336
Developer Advance Receivable	-	-	22,791	22,791
Prepaid Insurance	3,687	-	-	3,687
	\$ 495,323	\$ 35,691	\$ 12,536,634	\$ 13,067,648
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 27,441	\$ -	\$ 346,087	\$ 373,528
Retainage Payable	-	-	258,543	258,543
Total Liabilities	27,441	-	604,630	632,071
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	1,806	5,517	-	7,323
Total Deferred Inflows of Resources	1,806	5,517	-	7,323
FUND BALANCES				
Nonspendable:				
Prepaid Expenses	3,687	-	-	3,687
Restricted For:				
Emergencies (TABOR)	10,100	-	-	10,100
Debt Service	-	30,174	-	30,174
Capital Projects	-	-	11,932,004	11,932,004
Unassigned	452,289	-	-	452,289
Total Fund Balances	466,076	30,174	11,932,004	12,428,254
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 495,323	\$ 35,691	\$ 12,536,634	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				12,519,709
Long-term liabilities, including Developer advances payable and bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.				
Bonds Payable				(23,558,000)
Loan Payable				(19,647,000)
Accrued Interest Payable - Bonds				(3,977,383)
Accrued Interest Payable - Loan				(46,025)
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.				
Cost of Refunding				549,764
Net Position of Governmental Activities				\$ (21,730,681)

See accompanying Notes to Basic Financial Statements.

PALISADE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 1,751	\$ 5,350	\$ -	\$ 7,101
Specific Ownership Taxes	7,909	23,998	-	31,907
Sales Tax	-	60,235	-	60,235
BURA Revenue	108,403	868,560	-	976,963
Payment in Lieu of Taxes	217,921	646,857	-	864,778
Net Investment Income	2	1,324	4,695	6,021
Intergovernment Revenue	-	-	1,182,703	1,182,703
Transfer from District No. 1	-	343,684	-	343,684
Total Revenues	<u>335,986</u>	<u>1,950,008</u>	<u>1,187,398</u>	<u>3,473,392</u>
EXPENDITURES				
Current:				
Accounting	53,137	-	-	53,137
Auditing	5,000	-	-	5,000
Dues and Licenses	599	-	-	599
Banking Fees	662	193	713	1,568
Common Area Maintenance	97,748	-	-	97,748
County Treasurer's Fee	26	80	-	106
Electrical	910	-	-	910
Engineering	-	-	5,752	5,752
Insurance and Bonds	3,695	-	-	3,695
Irrigation	38,072	-	-	38,072
Legal Services	21,868	-	-	21,868
Repairs and Replacement	28,144	-	-	28,144
Snow Removal	9,240	-	-	9,240
Intergovernment Expense	-	-	62,989	62,989
Debt Service:				
Bond Interest - 2019	-	68,390	-	68,390
Bond Interest - 2016	-	545,213	-	545,213
Bond Principal - 2016	-	-	-	-
Loan Issue Costs	-	401,683	-	401,683
Payment to Refund Escrow	-	24,224,583	-	24,224,583
Paying Agent/Trustee Fees	-	17,500	-	17,500
Capital Outlay	-	-	3,909,935	3,909,935
Total Expenditures	<u>259,101</u>	<u>25,257,642</u>	<u>3,979,389</u>	<u>29,496,132</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	76,885	(23,307,634)	(2,791,991)	(26,022,740)
OTHER FINANCING SOURCES (USES)				
Loan Issuance	-	19,647,000	-	19,647,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>19,647,000</u>	<u>-</u>	<u>19,647,000</u>
NET CHANGE IN FUND BALANCES	76,885	(3,660,634)	(2,791,991)	(6,375,740)
Fund Balances - Beginning of Year	<u>389,191</u>	<u>3,690,808</u>	<u>14,723,995</u>	<u>18,803,994</u>
FUND BALANCES - END OF YEAR	<u>\$ 466,076</u>	<u>\$ 30,174</u>	<u>\$ 11,932,004</u>	<u>\$ 12,428,254</u>

See accompanying Notes to Basic Financial Statements.

**PALISADE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Governmental Funds \$ (6,375,740)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense, the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Capital Assets Acquired 3,915,687

The issuance of long-term debt (e.g., issuance of bonds, the receipt of Developer advances) provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Proceeds from 2021 Loan	(19,647,000)
Principal Payment	23,014,000
Amortization of Premium on 2016 Bond Issuance	268,260
Amortization of Cost of Refunding	386,197

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest on Bonds 2016 - Change in Liability	(1,861,366)
Accrued Interest on Bonds 2019 - Change in Liability	90,869
Accrued Interest on Loan 2021 - Change in Liability	<u>(46,025)</u>

Change in Net Position of Governmental Activities \$ (255,118)

**PALISADE METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Budgets		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Property Taxes	\$ 1,747	\$ 1,747	\$ 1,751	\$ 4
Specific Ownership Taxes	5,406	5,406	7,909	2,503
BURA Revenue	104,458	104,458	108,403	3,945
Payment in Lieu of Taxes	177,833	177,833	217,921	40,088
Net Investment Income	-	-	2	2
Total Revenues	289,444	289,444	335,986	46,542
EXPENDITURES				
Current:				
Accounting	40,000	60,000	53,137	6,863
Auditing	6,000	5,000	5,000	-
Banking Fees	500	700	662	38
Barn Maintenance	2,000	-	-	-
Common Area Maintenance	65,000	75,000	97,748	(22,748)
Contingency	4,174	3,500	-	3,500
County Treasurer's Fee	26	26	26	-
District Management	25,000	-	-	-
Dues and Membership	1,500	600	599	1
Electrical	2,000	2,000	910	1,090
Insurance and Bonds	4,300	3,700	3,695	5
Irrigation	30,000	43,000	38,072	4,928
Legal Services	40,000	48,500	21,868	26,632
Miscellaneous Maintenance	1,000	1,000	-	1,000
Office Supplies	1,500	1,500	-	1,500
Operational Reserves	20,000	-	-	-
Pond Maintenance	10,000	-	-	-
Repairs and Replacement	5,000	30,000	28,144	1,856
Snow Removal	10,000	10,000	9,240	760
Winter Watering	4,000	-	-	-
Total Expenditures	272,000	284,526	259,101	25,425
NET CHANGE IN FUND BALANCE	17,444	4,918	76,885	71,967
Fund Balance - Beginning of Year	450,989	389,191	389,191	-
FUND BALANCE - END OF YEAR	\$ 468,433	\$ 394,109	\$ 466,076	\$ 71,967

See accompanying Notes to Basic Financial Statements.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 DEFINITION OF REPORTING ENTITY

Palisade Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by order and decree of the District Court on August 16, 2007, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by the City and County of Broomfield, Colorado (Broomfield). The District's service area is located in Broomfield County, Colorado. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors. On September 12, 2006, Broomfield approved the District's Service Plan (the Original Service Plan). On December 2, 2014, Broomfield approved the First Amended and Restated Service Plan for the District (the Amended Service Plan), which is intended to modify, replace, restate, and supersede the Original Service Plan in its entirety. On August 20, 2019, Broomfield approved a First Amendment to the Amended Service Plan (collectively, the Service Plan).

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District has no employees and all operations and administrative functions are contracted.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by property taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets, deferred outflow of resources, liabilities, and deferred inflow of resources of the District is reported as net position.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue subject to accrual are property taxes and interest. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District amended its annual budget for the year ended December 31, 2021.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes (Continued)

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net investment in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Cost of Bond Refunding

In the government-wide financial statements the deferred cost of bond refunding is being amortized using the interest method over the life of the new bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

Deferred Inflow/Outflow of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue is deferred and recognized as an inflow of resources in the period that the amount becomes available.

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity

Net Position

For government-wide presentation purposes, when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's practice to use the most restrictive classification first.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent.

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 477,121
Cash and Investments - Restricted	10,369,148
Total Cash and Investments	\$ 10,846,269

Cash and investments as of December 31, 2021 consist of the following:

Deposits with Financial Institutions	\$ 717,761
Investments - UMB	10,128,508
Total Cash and Investments	\$ 10,846,269

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2021, the District's cash deposits had a bank balance and a carrying balance of \$717,761.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- . Obligations of the United States, certain U.S. government agency securities, and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Guaranteed investment contracts
- * Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series), money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee), CSAFE (which are recorded at amortized cost), and COLOTRUST (which are recorded at net asset value).

As of December 31, 2021, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	<u>\$ 10,128,508</u>

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement and Application (Continued)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unrefunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

	Balance - December 31, 2020	Increases	Decreases	Balance - December 31, 2021
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 8,604,022	\$ 3,915,687	\$ -	\$ 12,519,709
Capital Assets, Net	<u>\$ 8,604,022</u>	<u>\$ 3,915,687</u>	<u>\$ -</u>	<u>\$ 12,519,709</u>

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term debt for the period ending December 31, 2021:

	Balance - January 1, 2021	Additions	Deletions	Balance - December 31, 2021	Due Within One Year
Governmental Activities:					
Series 2016 G.O. Bonds	\$ 23,014,000	\$ -	\$ 23,014,000	\$ -	\$ -
Premium	268,260	-	268,260	-	-
Series 2019 Subordinate G.O. Bonds	23,558,000	-	-	23,558,000	-
Series 2021 Loan	-	19,647,000	-	19,647,000	600,000
Accrued and Unpaid:					
Interest Series 2019					
Subordinate G.O. Bonds	2,116,017	1,861,366	-	3,977,383	-
Total Long-Term Obligations	<u>\$ 48,956,277</u>	<u>\$ 21,508,366</u>	<u>\$ 23,282,260</u>	<u>\$ 47,182,383</u>	<u>\$ 600,000</u>

General Obligation Limited Tax and Revenue Bonds Series 2016

On September 1, 2016, the District issued \$26,240,000 of General Obligation Limited Tax and Revenue Bonds, Series 2016 (Series 2016 Bonds); The Series 2016 Bonds were refunded on November 23, 2021.

Subordinate General Obligation Limited Tax and Revenue Bonds Series 2019

On October 10, 2019, the District issued \$23,558,000 of Subordinate General Obligation Limited Tax and Revenue Bonds, Series 2019 (Series 2019 Bonds), for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure and paying the costs of issuance of the Series 2019 Bonds. The Series 2019 Bonds bear interest at rate of 7.250% payable annually on December 15 each year, commencing on December 15, 2019.

The Series 2019 Bonds are subject to mandatory redemption to the extent Pledged Revenue is available therefore and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, commencing on December 15, 2024, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2019 Bonds are “cash flow” bonds secured by the Pledged Revenue consisting of the following, net of any costs of collection: (a) the Sales Tax Revenue; (b) the Subordinate Required Mill Levy, including any District No. 2 TIF produced from the imposition of the Subordinate Required Mill Levy; (c) any Additional PILOT Revenue; (d) collectively, any District No. 1 Capital Revenue, BURA Agreement Revenue (exclusive of the Sales Tax Revenue as and to the extent received by the District), and PILOT Revenue, remaining in each Fiscal Year after the payment of any Senior Bonds (including the Series 2021 Loan); (e) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Subordinate Required Mill Levy; and (f) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue. Excluding Sales Tax Revenue, the Series 2019 Bonds are secured by the Pledged Revenue on a subordinate basis to the Series 2021 Loan.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Tax-Exempt General Obligation Refunding Loan Series 2021

On November 23, 2021, the District entered into a loan agreement with Zions Bancorporation, N.A. d/b/a Vectra Bank Colorado (Lender) in the principal amount of \$19,647,000 (Series 2021 Loan). Proceeds of the Series 2021 Loan were used to (i) refund, pay, and cancel the Series 2021 Loan; and (ii) pay the costs of issuing the Series 2021 Loan.

The Series 2021 Loan matures on December 1, 2046 and bears interest at 2.75% (Base Rate) from the closing date to December 1, 2036 (Interest Reset Date). For the period ranging from the Reset Date to the Maturity Date, the Base Rate shall be equal the sum of the Index plus 150 basis points, multiplied by 80%; (i) provided, however, for so long as the Series 2019 Subordinate Bonds remain outstanding, in no event shall the Base Rate cause the debt service payable on the Series 2021 Loan to exceed the debt service for such comparable year set forth in the Loan Agreement; and (ii) provided, further, in no event shall the Base Rate be less than 3.00%.

Interest is payable semiannually on June 1 and December 1, beginning on June 1, 2022 and principal is payable on December 1, beginning on December 1, 2022. Interest not paid when due shall compound on each payment date at the then-applicable interest rate.

The principal and interest on the Series 2021 Loan shall be payable solely from and to the extent of the Pledged Revenue and the funds and accounts held for the payment of the Series 2021. Pledged Revenue means the money derived by the District from the following sources, net of any costs of collection; (a) the Required Mill Levy, including any District No. 2 TIF produced from the imposition of the Required Mill Levy; (b) District No. 1's Capital Revenue; (c) BUR A Agreement Revenue; (d) PILOT Revenue; (e) the portion of Specific Ownership Tax which is collected as a result of imposition of the Required Mill Levy; and (f) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

The Series 2021 Loan principal and interest will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 600,000	\$ 552,299	\$ 1,152,299
2023	605,000	523,793	1,128,793
2024	700,000	507,155	1,207,155
2025	1,000,000	487,905	1,487,905
2026	1,200,000	460,405	1,660,405
2027-2031	3,875,000	1,872,338	5,747,338
2032-2036	2,646,000	1,459,838	4,105,838
2037-2041	4,035,000	1,690,650	5,725,650
2042-2046	4,986,000	683,100	5,669,100
Total	<u>\$ 19,647,000</u>	<u>\$ 8,237,482</u>	<u>\$ 27,884,482</u>

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Authorization

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$191,901,051 (with allocation of the principal amount of the Series 2021 Loan which is contingent upon whether the net effective interest rate on the Series 2021 Loan is lower than that of the refunded Series 2016 Bonds). The District has not budgeted to issue any new debt during 2022. Pursuant to the Service Plan, the District cannot issue debt in excess of \$52,000,000, of which \$1,885,843 remains. Issuance of debt in excess of \$52,000,000 shall be considered a material modification of the Amended Service Plan which shall be subject to statutory procedures set forth in section 32-1-207.C.R.S.

NOTE 6 NET POSITION

The District has net position consisting of two components – unrestricted and restricted.

Restricted net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2021, as follows:

Restricted Net Position:

Emergencies	\$ 10,100
Debt Service	30,125
Capital Projects	<u>1,803,545</u>
Total Restricted Net Position	<u><u>\$ 1,843,770</u></u>

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements.

NOTE 7 RELATED PARTY

All of the Board of Directors are employees, owners, or are otherwise associated with Kevamra, LLC (Kevamra), and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed by the Board.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 AGREEMENTS

Operation Funding Agreement

On November 13, 2008, the District and Kevamra entered into an Operation Funding Agreement with an effective date of September 27, 2007 (OFA), whereby Kevamra agreed to provide funding for operations and maintenance expenses of the District as needed through 2010 up to \$125,000 and the District agreed to reimburse Kevamra for such advances, along with interest at 8% per annum. The OFA expires on December 31, 2027. On December 9, 2010, the District entered into a First Amendment to the OFA extending the term to include advances up to \$125,000 as are necessary through 2012. On November 15, 2012, the District entered into a Second Amendment to OFA extending the term to include advances up to \$125,000 as are necessary through 2013. During 2020 the District repaid the Developer \$31,372 in principal and \$28,996 in interest and at December 31, 2021 there were no amounts outstanding under the OFA, as amended.

Facilities Funding and Acquisition Agreement

On August 25, 2016, the District and Kevamra entered into an Amended and Restated Facilities Funding and Acquisition Agreement (Amended FFAA) with an effective date of September 27, 2007. Pursuant to the Amended FFAA, Kevamra agreed to provide funding for certain construction-related expenses of the District up to \$17,500,000 and the District agreed to reimburse Kevamra for such capital advances made to the District along with interest at 8% per annum. The Amended FFAA further provides Kevamra may construct public improvements for subsequent acquisition and/or reimbursement by the District, subject to the conditions set forth in the Amended FFAA, along with interest at 8% per annum. On November 16, 2017, with an effective date of January 1, 2018, the District and Kevamra entered into a First Amendment to Amended FFAA to extend the fiscal years Kevamra shall be obligated to advance funds up to the amount of the shortfall amount through 2020 and to extend the term of the Amended FFAA. The Amended FFAA expires on December 31, 2030. As of December 31, 2021 there were no amounts outstanding under the Amended FFAA.

Amended and Restated Intergovernmental Agreement for Cost Sharing

On August 25, 2016, the District and Palisade Metropolitan District No. 1 (District No. 1, and collectively with the District, the Districts) entered into an Amended and Restated Intergovernmental Agreement for Cost Sharing with an effective date of January 1, 2014 (Amended IGA). The purpose of the Amended IGA is to identify and approve the allocation of the costs of the Completed Improvements as between the Districts, to evidence the agreement of District No. 1 to assume the obligation to reimburse Kevamra for the District No. 1 Allocated Improvement Costs (as defined in the Amended IGA) and the District No. 1 Direct Costs (as defined in the Amended IGA) pursuant to the District No. 1 Amended and Restated Facilities Funding and Acquisition Agreement with Kevamra and to evidence the agreement of the District to assume the obligation to reimburse Kevamra for the District No. 2 Allocated Improvement Costs (as defined in the Amended IGA) pursuant to the Amended FFAA. The Amended IGA also established the allocation between the District and District No. 1 for costs verified between the District and District No. 1 associated with the remaining public improvements to be constructed by the District for the benefit of the District and District No. 1.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 AGREEMENTS (CONTINUED)

Facilities Reimbursement Agreement (Taylor Morrison)

On May 19, 2020, the District, Taylor Morrison of Colorado, Inc. (Taylor Morrison), and Kevamra entered into a Facilities Reimbursement Agreement (the TM FRA) whereby Taylor Morrison agreed to construct certain public improvements within the boundaries of the District and District No. 1 (defined therein as the TM Improvements) and the District agreed to reimburse Taylor Morrison in the amount of \$406,488.68 for the cost expended by Taylor Morrison for the construction and installation of the TM Improvements subject to the terms and conditions of the TM FRA. The parties further acknowledged that Kevamra has a priority right to reimbursement per the Amended FFAA (discussed herein). Notwithstanding such right, Kevamra consented to the District's reimbursement of Taylor Morrison pursuant to the terms of the TM FRA. The amount reimbursed by the District to Taylor Morrison pursuant to the TM FRA will be allocated between the District and District No. 1 pursuant to the Amended IGA (discussed herein).

Facilities Reimbursement Agreement (Children's)

On September 2, 2020, the District, Children's Hospital Colorado (Children's), and Kevamra entered into a Facilities Reimbursement Agreement (the Children's FRA) whereby Children's agreed to construct certain public improvements within the boundaries of the District (defined therein as the CH Improvements) and the District agreed to reimburse Children's in an amount not to exceed \$1,529,405.55 for the costs expended or to be expended by Children's for the construction and installation of the CH Improvements, subject to the terms and conditions of the Children's FRA. Pursuant to the Children's FRA, the District is not obligated to reimburse Children's for expenses incurred relative to the CH Improvements but not invoiced (per the Children's FRA) to the District by December 31, 2021. The parties further acknowledged that Kevamra has a priority right to reimbursement per the Amended FFAA (discussed herein). Notwithstanding such right, Kevamra consented to the District's reimbursement of Children's pursuant to the terms of the Children's FRA.

Agreement to Plug and Abandon Wells and Reclaim Lands

On November 5, 2020, the District, Crestone Peak Resources Operating LLC (Crestone), and Kevamra entered into an Agreement to Plug and Abandon Wells and Reclaim Lands (the Crestone Agreement) setting forth the terms relative to the plugging and abandoning of certain wells owned and operated by Crestone on property owned by Kevamra that lies within the service area and/or boundaries of the District and District No. 1. The District intends to install certain park and recreation infrastructure on the property, but is unable to do so without having the wells plugged and abandoned. Crestone agreed to plug and abandon the wells in accordance with applicable rules and regulations and remove associated equipment from the property. Crestone and Kevamra further agreed to jointly perform the reclamation of a well pad location pursuant to the terms of the Crestone Agreement. The District agreed to pay Crestone \$100,000 to perform the plugging and abandoning of the wells and the reclamation of the well pad location.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 AGREEMENTS (CONTINUED)

Reimbursement Agreement

On October 9, 2007, the District entered into a Reimbursement Agreement by and among the Broomfield Urban Renewal Authority (BURA) and District No. 1 (Reimbursement Agreement) whereby BURA agreed to reimburse the Districts for eligible improvements in an amount of the lesser of the total certified costs, or \$15,809,807 (Reimbursement Obligation). Pursuant to the Reimbursement Agreement, the Districts are expected to issue bonds to finance the eligible improvements described therein and, to assist in supporting the repayment of such bonds, BURA agreed to transfer 50% of the 3.5% sales taxes imposed upon all transactions subject to sales tax within the Districts, 50% of the 3.5% use tax revenue produced by initial construction of Private Improvements within the Districts, and 50% of the Service Expansion Fee collected for residential uses developed and constructed within the Districts.

Additionally, BURA will deposit into a separate account and transfer to the Districts all property tax revenue paid to BURA as a result of the Districts' mill levies. The funds generated from the operating mill levy will be used by the Districts to pay for normal operating and maintenance expense, and the portion attributable to the debt service mill levy will be used for payment on the bonds. The debt service mill levy transfer will expire on the first to occur of the 25th anniversary of the Reimbursement Agreement or the defeasance in full of the bonds. The District's mill levies do not count against or otherwise reduce the Reimbursement Obligation.

On April 19, 2011, the Districts and BURA entered into Amendment No. 1 to the Reimbursement Agreement to acknowledge issuance of a Promissory Note by the District to finance certain specified public improvements (Amendment Improvements) for the benefit of certain property within the District (Amendment Property). Pursuant to Amendment No. 1, BURA agreed to pledge to the District for repayment of the Promissory Note that portion of increment revenues BURA receives as a result of 7.242 mills levied by Broomfield associated with the Amendment Property, and that portion of the increment revenues BURA receives as a result of the mill levy imposed by the Saint Vrain School District on the Amendment Property (Amendment Revenues).

On December 2, 2014, the Districts and BURA entered into Amendment No. 2 to the Reimbursement Agreement to provide for additional Pledged Revenue to pay for Eligible Expenditures of those Public Improvements defined in Amendment No. 2, including certain property tax increment revenues BURA receives as a result of the following, but excluding any Amendment No. 1 Property Tax Revenue attributed to the Amendment Property, (i) the levy of 7.242 mill by the Broomfield upon certain property, (ii) 100% of the levy of the St. Vrain School District on certain property within District No. 2, and (iii) 75% of the levy of the St. Vrain School District on certain property within District No. 1. Amendment No. 2 also increased the Maximum Net Reimbursement Obligation of BURA to the lesser of the total cost for the Public Improvements, as certified and approved in accordance with the Reimbursement Agreement, or \$23,633,446.

On July 15, 2015, the Districts and BURA entered into a Corrected Amendment No. 3 to the Reimbursement Agreement (Amendment No. 3) in order to clarify certain definitions and authorized uses of the Pledged Revenues.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 AGREEMENTS (CONTINUED)

Agreement Regarding Children's Payments in Lieu of Taxes

The District and Kevamra entered into an Agreement Regarding Children's Payments in Lieu of Taxes on July 12, 2011 (Children's Agreement) whereby Kevamra agreed to transfer, convey, and assign all of its rights title and interest in certain payments made by the Children's Hospital Association (Children's). Specifically, Kevamra had previously entered into various agreements with Children's whereby Children's agreed to promptly pay all taxes, assessments, fees, and other lawful charges levied by the District, or alternatively to pay the District an amount equivalent to the fees assessments or taxes if it is deemed that Children's is tax exempt (Children's PILOT). Pursuant to the Children's Agreement, the District has the right to enforce and collect the Children's PILOT.

Declaration of Covenants Relating to Payments in Lieu of Ad Valorem Taxes

The District, Kevamra, and The Oxford Fund/NARA-CO, LLC (Oxford) entered into a Declaration of Covenants Relating to Payments in Lieu of Ad Valorem Taxes on July 12, 2011 (Declarations), whereby Kevamra and Oxford agreed that if (1) any tax-exempt entity becomes an owner of the property that is the subject of the Declarations, or (2) any owner that is taxable subsequently becomes tax exempt, then such property shall be subject to a payment in lieu of taxes (PILOT). The amount of the PILOT payment shall be an amount equal to what would have been derived from the District's operations and maintenance mill levy and debt service mill levy plus, during the term of the Reimbursement Agreement, an amount equal to the Amendment Revenues, prorated of any portion of the year during which a change in status occurs. The Declarations terminate upon the later of dissolution of the District or repayment of all obligations under bonds issued by the District.

Facilities Fee Resolution

On November 13, 2008, the District adopted Facilities Fee Resolution No. 2008-11-05, as amended on June 23, 2010 and as further amended on November 13, 2014 (Fee Resolution). Pursuant to the Fee Resolution, the District imposed a Facilities Fee on (i) each Commercial Unit, as defined in the Fee Resolution, constructed in the District in the amount of \$.50 per square foot, and (ii) each Multifamily Residential Unit, as defined in the Fee Resolution, in the amount of \$1,000 on each Multifamily Residential Unit (collectively, the Fee). The Fee is due and payable on or before the date of issuance of a building permit. A written request may be made to the District for a deferral of the payment to an alternative date. Any request will be considered on a case-by-case basis by the District.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 AGREEMENTS (CONTINUED)

Amended and Restated Capital Pledge Agreement

On September 1, 2016, the District and District No. 1 entered into a Capital Pledge Agreement (2016 Pledge Agreement), whereby District No. 1 pledged certain revenues to the payment of the District's Series 2016 Bonds. On October 1, 2019, the District and District No. 1 entered into an Amended and Restated Capital Pledge Agreement (Restated Pledge Agreement), which amended and restated the 2016 Pledge Agreement in its entirety, in connection with the District's issuance of the Series 2019 Bonds. The Restated Pledge Agreement obligates District No. 1 to pledge the District No. 1 Capital Revenue (as defined in the Restated Pledge Agreement) to the payment of the Series 2016 Bonds and Series 2019 Bonds. On November 23, 2021, the District and District No. 1 entered into a Second Amended and Restated Capital Pledge Agreement (Second Restated Pledge Agreement), which amended and restated the Restated Pledge Agreement in its entirety, and obligates District No. 1 to pledge the District No. 1 Capital Revenue (as defined herein) to the payment of the Series 2019 Bonds and Series 2021 Loan. The obligation of District No. 1 under the Second Restated Pledge Agreement constitutes a general obligation limited tax debt of District No. 1 in the principal amount of \$8,000,000, bearing interest at the rate of 7.00% per annum (due on each June 1 and December 1), maturing on December 15, 2049, and payable solely from the District No. 1 Capital Revenue; provided, however, the total payments made by District No. 1 to the District pursuant to the Second Restated Pledge Agreement will not exceed \$24,301,000; less all payments made from the Date of the 2016 Pledge Agreement (Revenue Limitation). The payment obligations of District No. 1 under the Second Restated Pledge Agreement continue until the earlier of the date when the Series 2019 Bonds and the Series 2021 Loan are no longer outstanding or the date on which District No. 1 has made payments thereunder equal to the Revenue Limitation.

County Road 7 Escrow Account Letter Agreement

The District agreed pursuant to a letter agreement to Kevamra dated March 26, 2019 (Escrow Letter Agreement) to requisition \$960,699 of bond proceeds from its Series 2016 Bonds (discussed herein) to reimburse Kevamra for the District and Palisade Metropolitan District No. 1's share of the construction related expenses associated with the County Road 7 Improvements (as defined therein) in the amount of \$598,867 (defined therein as the "Verified Costs"), as such Verified Costs were determined to be reimbursable under the Amended FFAA, and to provide an additional \$361,833 (as defined therein as the "Unverified Amount") to Kevamra so that with the Verified Costs, Kevamra can place the entire \$960,699.31 in escrow to stay the execution of a jury award against Kevamra in a suit brought against Kevamra relative to the County Road 7 Improvements. Pursuant to the Escrow Letter Agreement, Kevamra agrees that if the jury award against Kevamra is overturned or decreased and/or all or any portion of the Unverified Amount is not certified as reimbursable under the Amended FFAA, Kevamra will return all or such portions of the Unverified Amount to the District and/or credit such amount to future construction related expenses to the extent the same are reimbursable pursuant to the terms of the Amended FFAA.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 AGREEMENTS (CONTINUED)

County Road 7 Escrow Account Letter Agreement (Continued)

Pursuant to a Letter Agreement to Kevamra dated July 28, 2021, the District amended the Escrow Letter Agreement to reflect additional verified costs associated with the County Road 7 improvements in the amount of \$398,794.19, as the same are reimbursable to Kevamra pursuant to the amended FFAA, increasing the total reimbursement to Kevamra to \$1,359,493.50.

Supplemental Agreement to the Subdivision Improvement Agreements for Palisade Park

On April 28, 2020, the District, the City and County of Broomfield (Broomfield), Kevamra, District No. 1, Palisade Park North Metropolitan District Nos. 1, 2, and 3, and Palisade Park West Metropolitan District (collectively, the District, District No. 1, Palisade Park North Metropolitan District Nos. 1, 2, and 3, and Palisade Park West Metropolitan District are referred to as the Palisade Districts and individually, each a Palisade District) entered into the Supplemental Agreement to the City and County of Broomfield Subdivision Improvement Agreements for Palisade Park (Supplemental Agreement). The purpose of the Supplemental Agreement is to provide an alternative to the requirement that Kevamra provide an irrevocable letter of credit or other performance guaranty (Surety) designating Broomfield as the beneficiary in an amount equal to the total costs of the public improvements governed by the respective Subdivision Improvement Agreements between Broomfield and Kevamra. In lieu of the Surety, the Supplemental Agreement provides that the respective Palisade District and Kevamra will provide Broomfield with a Project Application (as defined in the Supplemental Agreement) which includes the anticipated costs associated with the construction of the contemplated public improvements (Project Costs). The respective Palisade District must provide evidence of funds sufficient to pay the entirety of the Project Costs identified in the Project Application. The Supplemental Agreement further provides the process for the release of such funds for the payment of the Project Costs.

Park Cost Sharing Intergovernmental Agreement

The Palisade Districts entered into the Park Cost Sharing Intergovernmental Agreement (Park Cost Sharing IGA) effective in 2020. The Park Sharing IGA: (i) identifies and approves the allocation of the costs incurred relative to certain regional park, open space, and recreation improvements of a regional nature (referred to therein as the Park Improvements); (ii) evidences the agreement of the District to finance and cause the construction of the Park Improvements; and (iii) evidences the agreement of the remaining Palisade Districts to reimburse the District for such costs in accordance with an agreed-upon cost-sharing allocation.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (TABOR), contains tax, spending, revenue, and debt limitations which apply to the state of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

On November 7, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

SUPPLEMENTARY INFORMATION

**PALISADE METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 5,338	\$ 9,300	\$ 5,350	\$ (3,950)
Specific Ownership Tax	16,517	18,000	23,998	5,998
Sales Tax	45,000	45,000	60,235	15,235
BURA Revenue	849,414	849,414	868,560	19,146
Payment in Lieu of Taxes	543,354	646,850	646,857	7
Net Investment Income	9,405	1,500	1,324	(176)
Transfers from Palisade No. 1	553,452	575,000	343,684	(231,316)
Total Revenues	<u>2,022,480</u>	<u>2,145,064</u>	<u>1,950,008</u>	<u>(195,056)</u>
EXPENDITURES				
Current:				
County Treasurer's Fees	80	80	80	-
Banking Fees	3,300	250	193	57
Office Supplies	1,500	860	-	860
Bond Interest - 2019	148,882	68,400	68,390	10
Bond Interest - 2016	1,195,188	545,250	545,213	37
Bond Principal - 2016	915,000	-	-	-
Paying Agent/Trustee Fees	5,000	17,500	17,500	-
Loan Issue Costs	-	401,683	401,683	-
Payment to Refund Escrow	-	24,224,583	24,224,583	-
Contingency	2,050	-	-	-
Total Expenditures	<u>2,271,000</u>	<u>25,258,606</u>	<u>25,257,642</u>	<u>964</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(248,520)	(23,113,542)	(23,307,634)	(194,092)
OTHER FINANCING SOURCES (USES)				
Loan Issuance	-	19,647,000	19,647,000	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>19,647,000</u>	<u>19,647,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(248,520)	(3,466,542)	(3,660,634)	(194,092)
Fund Balance - Beginning of Year	<u>3,893,199</u>	<u>3,690,808</u>	<u>3,690,808</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 3,644,679</u>	<u>\$ 224,266</u>	<u>\$ 30,174</u>	<u>\$ (194,092)</u>

**PALISADE METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernment Revenue	\$ -	\$ 1,182,703	\$ 1,182,703
Net Investment Income	18,616	4,695	(13,921)
Total Revenues	<u>18,616</u>	<u>1,187,398</u>	<u>1,168,782</u>
EXPENDITURES			
Current:			
Banking Fees	4,000	713	3,287
Engineering	-	5,752	(5,752)
Intergovernment Expense	-	62,989	(62,989)
Capital Outlay	14,907,409	3,909,935	10,997,474
Total Expenditures	<u>14,911,409</u>	<u>3,979,389</u>	<u>10,932,020</u>
NET CHANGE IN FUND BALANCE	(14,892,793)	(2,791,991)	12,100,802
Fund Balance - Beginning of Year	<u>14,892,793</u>	<u>14,723,995</u>	<u>(168,798)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 11,932,004</u></u>	<u><u>\$ 11,932,004</u></u>

OTHER INFORMATION

PALISADE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2021

\$19,647,000 Tax-Exempt General Obligation
Refunding Loan - Dated November 23, 2021
Interest Rate Ranging from 2.75 % to 4.50%
Interest Payable June 1 and December 1

Year Ending December 31.	Principal Payable December 1		
	Principal	Interest	Total
2022	\$ 600,000	\$ 552,299	\$ 1,152,299
2023	605,000	523,793	1,128,793
2024	700,000	507,155	1,207,155
2025	1,000,000	487,905	1,487,905
2026	1,200,000	460,405	1,660,405
2027	1,150,000	427,405	1,577,405
2028	1,150,000	395,780	1,545,780
2029	525,000	364,155	889,155
2030	525,000	349,718	874,718
2031	525,000	335,280	860,280
2032	525,000	320,843	845,843
2033	525,000	306,405	831,405
2034	525,000	291,968	816,968
2035	525,000	277,530	802,530
2036	546,000	263,093	809,093
2037	700,000	405,945	1,105,945
2038	750,000	374,445	1,124,445
2039	805,000	340,695	1,145,695
2040	875,000	304,470	1,179,470
2041	905,000	265,095	1,170,095
2042	950,000	224,370	1,174,370
2043	975,000	181,620	1,156,620
2044	1,000,000	137,745	1,137,745
2045	1,025,000	92,745	1,117,745
2046	1,036,000	46,620	1,082,620
Total	<u>\$ 19,647,000</u>	<u>\$ 8,237,482</u>	<u>\$ 27,884,482</u>

PALISADE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2021

\$23,558,000 Subordinate General Obligation Bonds
Dated October 1, 2019
Interest Rate 7.25%
Principal Due December 15
Interest Payable December 15

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 1,844,308	\$ 1,844,308
2022	-	1,967,226	1,967,226
2023	-	2,038,722	2,038,722
2024	-	2,003,498	2,003,498
2025	1,015,000	1,972,063	2,987,063
2026	3,577,000	1,810,120	5,387,120
2027	3,663,000	1,634,368	5,297,368
2028	1,647,000	1,375,035	3,022,035
2029	1,825,000	1,109,468	2,934,468
2030	1,956,000	990,060	2,946,060
2031	2,161,000	857,748	3,018,748
2032	2,317,000	715,938	3,032,938
2033	2,545,000	559,265	3,104,265
2034	2,729,000	391,283	3,120,283
2035	123,000	206,770	329,770
2036	-	8,918	8,918
Total	<u>\$ 23,558,000</u>	<u>\$ 19,484,790</u>	<u>\$ 43,042,790</u>

PALISADE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2021

Year Ended December 31,	Prior	Prior Year	Prior	Mills Levied	Total Property Taxes		Percent Collected to Levied
	Year Assessed Valuation for Current Year Tax Levy	TIF Increment Assessed Valuation for Current Year Tax Levy	Year Gross Assessed Valuation for Current Year Tax Levy		Levied	Collected	
2017	\$ 6,213,170	\$ (5,956,893)	\$ 256,277	60.000	\$ 15,377	\$ 15,344	99.79%
2018	6,165,793	(5,927,490)	238,303	62.018	14,780	14,754	99.82%
2019	9,732,276	(9,523,206)	209,070	52.018	10,875	10,884	100.08%
2020	11,228,490	(11,025,877)	202,613	48.336	9,793	6,708	68.50%
2021	9,009,930	(8,864,355)	145,575	48.665	7,085	7,101	100.23%

Estimated for the Year
Ending December 31,

2022	\$ 9,807,350	\$ (9,656,877)	\$ 150,473	48.665	\$ 7,323		
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NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.